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S E C R E T NOFORN SECTION 01 OF 02 ROME 000059

SIPDIS

STATE FOR EUR/WE, EUR/PRA, NP/ECNP, INR/SPM, NEA/NGA,
PM/RSAT

E.O. 12958: DECL: 01/08/2014

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SUBJECT: SALE OF FAST BOATS TO IRAN

REF: A. ROME 5680

- 1B. ROME 5552
- 1C. STATE 338477
- 1D. ROME 5202 AND PREVIOUS
- 1E. STATE 348141

CLASSIFIED BY: CHARGE D'AFFAIRES EMIL SKODON FOR REASONS 1.5 (A) (B) AN
D 1.6X6.

11. (S) ON JAN. 7 ECON COUNSELOR CALLED ON GABRIELE CHECCHIA, DIPLOMATIC ADVISOR TO MINISTER OF PRODUCTIVE ACTIVITIES (INDUSTRY) MARZANO, TO CONTINUE REFTEL A DISCUSSION OF FB DESIGN'S EXPORT TO IRAN OF FOUR FAST BOATS. ECON COUNSELOR SAID WE UNDERSTOOD TWO BOATS WERE ALREADY IN IRAN, AND THAT THE THIRD BOAT, DUE TO HAVE BEEN SHIPPED FROM VENICE DECEMBER 19, WAS NOW REPORTEDLY TO BE SHIPPED JANUARY 15. SHE STRESSED THERE WAS NOW WIDE-SPREAD INTEREST IN WASHINGTON IN WHAT STEPS THE GOI COULD TAKE TO HALT SHIPMENT OF THE REMAINING TWO. THERE WERE ONLY EIGHT DAYS REMAINING TO THE NEXT SHIPMENT DATE.

12. (S) CHECCHIA AGAIN SAID THE GOI HAD NO LEGAL AUTHORITY TO SEIZE THE BOATS OR HALT SHIPMENT. IMMEDIATELY FOLLOWING ECON COUNSELOR'S PREVIOUS CALL, HE HAD BRIEFED MINISTER MARZANO OF THE USG CONCERNS OVER FURTHER EXPORTS. HOWEVER, BOTH HE AND THE MINISTER CONCLUDED THAT CHECCHIA'S SUGGESTION OF A DECREE LAW (REF A), WHICH THE COUNCIL OF MINISTERS COULD PASS QUICKLY TO PERMIT IMMEDIATE HALT OF THE EXPORT, WOULD BE MORE DIFFICULT THAN CHECCHIA ORIGINALLY THOUGHT. SPECIFICALLY, MARZANO (AND CHECCHIA) THOUGHT THAT MINISTERS MUST ALSO CAREFULLY CONSIDER THE DOMESTIC REPERCUSSIONS OF FORCIBLY HALTING FURTHER EXPORT. CHECCHIA SAID HE THOUGHT SUCH A STEP WOULD BANKRUPT FB DESIGN AND POSSIBLY A SECOND FIRM PROVIDING COMPONENT PARTS, NOTABLY, ENGINES FOR THE FAST BOATS (ISOTTA FASCHINI MOTORI, S.P.A. IN BARI, ITALY). CHECCHIA ALSO SAID, WITH RESPECT TO COMPENSATION, THAT IN ADDITION TO THE COSTS OF THE BOATS (AND POSSIBLY A PENALTY FOR NOT MEETING THE CONTRACTUAL OBLIGATION WITH IRAN), ONE MUST ALSO CONSIDER UNSPECIFIED "LABOR COSTS." ON ISOTTA FASCHINI MOTORI, HE SAID ITS CORPORATE PLANS WERE BASED ON SALES PROCEEDS FROM THE BOATS AND THAT THE "OPPORTUNITY COSTS" OF LOSING THESE REVENUES MUST BE PART OF ANY COMPENSATION PLAN.

13. (S) TO DRIVE HOME THE POINT, CHECCHIA REPEATED THAT EVEN IF THE GOI COULD SOLVE THE LEGAL PROBLEM OF HOW TO HALT SHIPMENT, THERE STILL REMAINED THE DOMESTIC PROBLEM OF COMPENSATING BOTH FIRMS. HE WONDERED ALOUD THREE TIMES WHETHER THE USG COULD HELP ON THIS SCORE. CHECCHIA INITIALLY SAID MINISTER MARZANO HAD AGREED TO MEET WITH "CONCERNED MINISTRIES" WITHIN THE NEXT WEEK ON THE ISSUE. PRESENTED WITH THIS NEWEST INFORMATION THAT THE THIRD BOAT WAS NOW DUE TO BE SHIPPED JANUARY 15, CHECCHIA SAID HE WOULD SEEK TO HAVE THE MEETING MOVED FORWARD. HE SAID HE WOULD CALL ECON COUNSELOR WITH A REPORT OF THAT MEETING, WHENEVER IT TAKES PLACE.

COMMENT AND RECOMMENDATIONS:

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TION THAT THE GOI WILL ACT QUICKLY ENOUGH TO HALT SHIPMENT OF THE TWO REMAINING BOATS. IF ANYTHING, SENIOR ITALIAN OFFICIALS APPEAR TO HAVE CONCLUDED THAT THEY ARE CONSTRAINED FROM ACTING NOT ONLY BY THEIR LACK OF LEGAL AUTHORITY, BUT ALSO BY THE POSSIBLE FINANCIAL AND LABOR IMPLICATIONS FOR THE TWO ITALIAN FIRMS INVOLVED. FOR WELL MORE THAN ONE YEAR, EMBASSY ROME HAS RAISED THIS ISSUE REPEATEDLY AND AT EVERY LEVEL, FROM THE AMBASSADOR ON DOWN, WITH FM FRATTINI, THE PRIME MINISTER'S SENIOR ADVISORS, AND AT OTHER SENIOR LEVELS IN THE MINISTRIES OF FOREIGN AFFAIRS AND PRODUCTIVE ACTIVITIES. THE SECRETARY HAS ALSO RAISED THE ISSUE WITH FM FRATTINI. AT THIS JUNCTURE, WE

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BELIEVE OUR BEST REMAINING SHOT AT GETTING THE ITALIAN GOVERNMENT TO INTERVENE AND STOP THE EXPORT OF THE LAST TWO BOATS, WOULD BE EITHER ANOTHER DIRECT COMMUNICATION FROM THE SECRETARY TO FM FRATTINI, OR ALTERNATIVELY, A MESSAGE FROM NSA RICE TO HER ITALIAN EQUIVALENT, GIOVANNI CASTELLANETA, SENIOR DIPLOMATIC ADVISOR TO THE PRIME MINISTER. THERE IS NO GUARANTEE, HOWEVER, THAT EVEN THESE STEPS WILL SUCCEED, GIVEN THE OBSTACLES PERCEIVED BY THE ITALIANS.

15. (S) WITH RESPECT TO THE LONGER TERM QUESTION OF ADDRESSING THE DEFICIENCIES IN ITALY'S EXPORT CONTROL REGIME IN A MANNER THAT ALLOWS US TO DEAL WITH CASES LIKE FAST BOATS MORE EFFECTIVELY IN THE FUTURE, WE WOULD SUGGEST THAT "QUICK" ACTION IN THE ABSENCE OF CLEAR LEGAL AUTHORITY" BE MADE AN AGENDA ITEM FOR THE NEXT ROUND OF BILATERAL DUAL-USE EXPORT CONTROL DISCUSSIONS, DUE TO BE HELD THE FIRST QUARTER OF THIS YEAR. WE SUGGEST ALSO THAT AN UPDATED INTELLIGENCE BRIEFING BE ARRANGED FOR APPROPRIATE GOI OFFICIALS ON THE LARGER PICTURE

OF IRANIAN PURCHASES IN EUROPE (CASTELLANETA'S PROPOSED WASHINGTON TRIP AT THE END OF JANUARY MAY PROVIDE THE OPPORTUNITY FOR SUCH A BRIEFING). FINALLY, SINCE OTHER COUNTRIES MAY FACE SIMILAR EXPORT CONTROL DEFICIENCIES, WE WOULD SUGGEST ADDRESSING THE ISSUE AT THE DEFENSE TRADE CONTROLS MEETING PROPOSED FOR MARCH IN WASHINGTON (REF E). END COMMENT AND RECOMMENDATIONS.

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